



### Key findings:

The population of the emirate of Dubai is expected to drop by between 14 % and 28 % by the end of 2009.

This will be instigated by an abrupt reduction in construction activity in the emirate resulting in tens of thousands of lay-offs in the predominantly expatriate population.

The anticipated drop of population will likely lead to further financial difficulties for Dubai and may necessitate greater assistance from Abu Dhabi.

The drop in the population is expected to worsen in the third quarter of 2009 and result in further aggravating the economic situation.

Massive government spending will likely result in stabilization in the population. However, the assistance of Abu Dhabi may be necessary to realize this. Despite the short and medium term difficulties, the long-term prospects for Dubai as a regional hub remain optimistic.

### Population changes and construction activity in 2009

Political Capital estimates that the percentage of the population working directly in the construction and construction-related industries and those directly dependent on them (i.e. family) to be 39% of the current total Dubai population.

Current estimates suggest that the level of construction activity in Dubai will drop by at least 60% from the end of 2008. This is likely to be reflected in a similar drop in the number of employees working in the industry.

Unless drastic measures are taken before June 2009 to increase spending to an amount equivalent to halt the construction activity, the population drop is likely to accelerate further in the summer months.

### Residency permit cancellations and construction workers repatriation

There are no reliable figures on the number of residency permit cancellations in Dubai. However, estimates of an average of 1,500 - 2,000 residency cancellations per day since the start of 2009 are reinforced by reported scenes at the residency cancellation counters of the immigration department. There are also reports that due to thousands of laid off construction labourers from India unable to return home, the Indian government is chartering flights to repatriate them. Repatriation chartered flights are reported to be leaving from RAK airport.



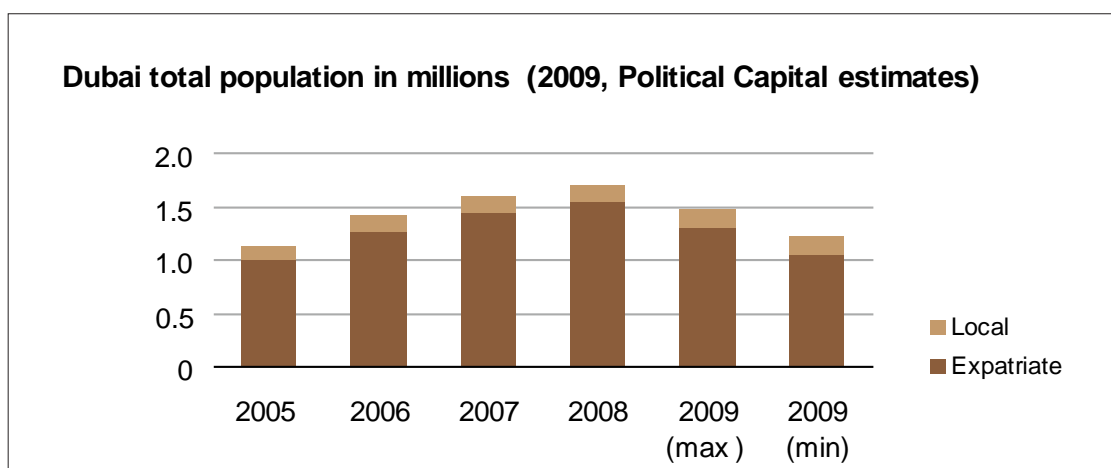
### Predicted population trend changes in 2009

The change of the population is expected to go through different phases as follows:

1. The first quarter of 2009 is already experiencing the first batch of layoffs. A steady drop is expected to continue through the first quarter of 2009;
2. The second quarter of 2009 is likely to see a less severe population drop. This is partly due to a predicted lower rate of increasing layoffs and partly due to those who have already been laid off to remain in Dubai through to the third quarter. The latter case applies to those with school children;
3. The third quarter of every year is traditionally the time of year when residents return to their native countries for the summer holidays, after the end of the summer year. It is also the time when most contracts (housing and employment) are due for renewal. At the end of the school year, parents working in the construction industry are more likely to send their children back to their native countries for the following school year. Those parents who have already been laid off and opted to remain until the end of the school year, will likely leave Dubai for good, while many of those who have retained their jobs will likely prefer to avoid risking committing themselves and their families to starting a new year and may opt to only remain themselves in Dubai while keep their families home. As a result, the third quarter of 2009 will likely see the steepest drop in the population of Dubai;
4. The fourth quarter may see a slight recovery in the overall population, but this will only be due to construction industry employees arriving for temporary assignments without their families.

Based on official figures on the population numbers and its make-up and the latest information on the status of the Dubai economy in general and the construction industry in particular, we estimate that the total population of Dubai will drop between 14 % and 28 %. This estimate takes into account the expected layoffs in the non-construction and real-estate sectors.

Figure 1 shows the population of Dubai since 2005 along with the maximum and minimum predicted population by the end of 2009.



**Figure1:** Population of Dubai since 2005 along with Political Capital population estimates for 2009



### Consequences

In most countries, layoffs translate into higher levels of unemployment. Dubai is one place where layoffs translate into a drop in the population. Although there are no exact figures on the contribution of the construction industry to the Dubai economy, it is accepted that the back-bone of the economy is the construction and real-estate industries. The economy has been largely driven by speculation in the property market reinforced with anticipated population increase.

Figure 2 shows an estimate of the make-up of the Dubai economy.

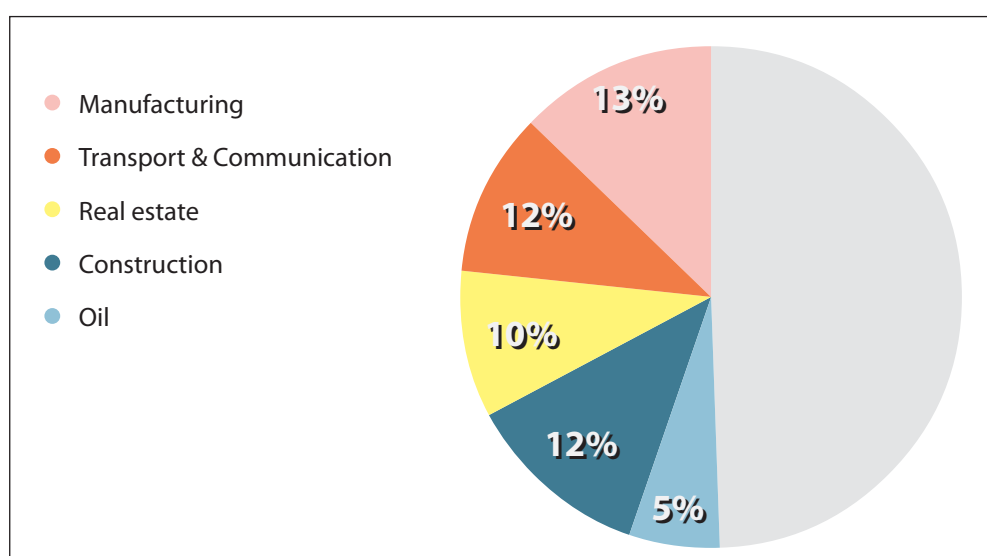


Figure 2: Make-up of the Dubai GDP (2006 estimate)

The reported drop in the value properties in Dubai has initially been due to illiquidity in the financial institutions and the resulting clearing away of speculators. Those factors have resulted in an abrupt stoppage of construction activity, leading to the predicted population drop. This population drop will now create a further problem for the real-estate industry as for the first time in many years, the supply in residential and commercial properties will exceed demand.

The Dubai authorities are compelled to introduce massive spending in order to attract population numbers again, as outlined in the 2009 budget. However, current evidence suggests that there are difficulties in the completion of Dubai government-affiliated construction projects. This leads to the conclusion that in order for Dubai to regain the confidence that has been shaken by the recent crisis, Abu Dhabi may need to step in and offer more thorough support. Failure to do so will likely result in continuing economic difficulties well into 2010.

Despite the difficult short and medium term outlook for Dubai, the infrastructure that has already been put in place makes it one of the region's main future hubs. We therefore estimate that in the long-term, the prospects for Dubai will be better, albeit different to pre-2009.

# RISK WARNING

## DROP OF POPULATION WILL LEAD TO FURTHER FINANCIAL TROUBLES IN DUBAI



12th February, 2009

### Effect on Abu Dhabi

The financial difficulties facing Dubai will be interconnected with relations with and events in Abu Dhabi. As Dubai faces difficulties in its real-estate and construction sector, Abu Dhabi will have increasing influence on the way Dubai moves. The financial institutions providing funding for the real-estate and construction sectors are becoming more federalized, with ever-increasing dependance on Abu Dhabi. In addition, Dubai-based developers will look for financial assistance from Abu Dhabi. In return for its de-facto bail-out, Abu Dhabi will likely hope to have greater say in the running of Dubai, through the strengthening of federal mechanisms in which Abu Dhabi has the greatest influence. Abu Dhabi will therefore increase its hold on the the way the rest of the UAE moves. This will likely contribute to the overall position the UAE, potentially making it a more important and influential regional player. However, this will ultimately depend on the way Dubai-Abu Dhabi relations develop.

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